

ORIGINAL

NEW APPLICATION



0000098315

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2009 MAY 21 P 3:14

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAY 21 2009

DOCKETED BY

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In the matter of:

SECURE RESOLUTIONS, INC., an Arizona
Corporation;

DOUGLAS COTTLE and KYLA COTTLE,
husband and wife,

Respondents.

DOCKET NO. S-20677A-09-0256

**NOTICE OF OPPORTUNITY FOR HEARING
REGARDING PROPOSED ORDER TO
CEASE AND DESIST, ORDER FOR
RESTITUTION, FOR ADMINISTRATIVE
PENALTIES, AND FOR OTHER
AFFIRMATIVE ACTION**

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that Respondents Secure Resolutions, Inc., Douglas Cottle, and Kyla Cottle have engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

The Division also alleges that Douglas Cottle and Kyla Cottle are persons controlling Secure Resolutions, Inc. within the meaning of A.R.S. § 44-1999, so that they are each jointly and severally liable under A.R.S. § 44-1999 to the same extent as Secure Resolutions, Inc., for violations of the Securities Act.

I.

JURISDICTION

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.**RESPONDENTS**

2. Secure Resolutions, Inc. ("SRI") is a corporation incorporated in Arizona on May 17, 2004, to conduct business in the state of Arizona. SRI's headquarters was located in Mesa, Arizona for all relevant times.

3. Pursuant to public records of the Commission, Douglas Cottle ("COTTLE") is president, chief executive officer (CEO), and director of SRI¹. COTTLE conducted business individually and/or did business as and through SRI, as president, chief executive officer, or director of SRI and is a controlling person of SRI. At all times relevant, COTTLE was a married man, spouse of Kyla Cottle and resided in Arizona.

4. Pursuant to public records of the Commission, Kyla Cottle ("K. COTTLE") is a director of SRI. K. COTTLE conducted business individually and/or did business as and through SRI, as director of SRI and is a controlling person of SRI. At all times relevant, K. COTTLE was a married woman, spouse of COTTLE and resided in Arizona.

5. At all times relevant, COTTLE and K. COTTLE were acting for their own benefit and for the benefit or in furtherance of their marital community. COTTLE and K. COTTLE may be referred to collectively as the "COTTLES."

6. SRI, COTTLE and K. COTTLE may be referred to collectively as "Respondents."

III.**FACTS**

7. From on or about May 2004 to December 2007, Respondents publicly offered and/or sold unregistered securities in the form of investment contracts, notes, warrants and/or stocks within or from Arizona.

¹ From September 2003 to June 2006, COTTLE was the Acting CEO of SRI; From July 2006 to Present, COTTLE has been the President and CEO of SRI; From March 3, 2003 to the present COTTLE has been Chairman of SRI's board of directors.

1 8. SRI's website² describes SRI as "a software development Company providing an
2 independent, integrated IT security management console for the enterprise market. Secure
3 Resolutions enables enterprises to secure their IT infrastructure more effectively, easily and
4 profitably by providing an intelligent suite of integrated security products."

5 9. To raise capital for the company, COTTLE offered and/or sold various investment
6 opportunities to offerees and/or investors personally and/or through the engagement of unregistered
7 salesmen, Wesley Kikuchi ("W. KIKUCHI") and Lang Dao ("DAO").

8 10. COTTLE held investment presentations at various locations, including but not
9 limited to:

- 10 a) The Reno convention center in Reno, Nevada on or about May 27, 2004;
11 b) The La Veranda Restaurant located in Garden Grove, California on or about
12 November 20, 2004; and
13 c) The personal residences of certain investors located in California, Nevada
14 and Arizona.

15 11. On or about April 23, 2004 COTTLE memorialized in a document to W. KIKUCHI
16 their business relationship which included terms that stated W. KIKUCHI was "to assist Secure
17 Resolutions as a broker for investment opportunities," that W. KIKUCHI would receive a ten
18 percent (10%) commission for each investment secured, and that payments would be in the form of
19 cash and/or SRI stock. COTTLE signed the document as CEO/Chairman of SRI.

20 12. Between August 8, 2004, to at least December 19, 2006, SRI paid W. KIKUCHI
21 such commission payments.

22 13. W. KIKUCHI is not and has not been a registered securities salesman in the state of
23 Arizona or any state.

24 14. At all times relevant, W. KIKUCHI resided in Nevada. While in Nevada, W.
25 KIKUCHI offered and/or sold SRI Series B preferred ("Series B") stocks, SRI Series B1 preferred
26

² <http://secureresolutions.com/AboutUs/Overview/tabid/66/Default.aspx>

1 ("Series B1") stocks and SRI Series B2 preferred ("Series B2") stocks to Nevada residents. W.
2 KIKUCHI is also an investor in SRI.

3 15. Investor monies were made payable to SRI, collected by W. KIKUCHI and mailed
4 or forwarded to SRI, which maintained its principal place of business in Arizona for all times
5 relevant.

6 16. Pursuant to SRI records, on or about September 2003 to June 2006, DAO was the
7 vice president of SRI.

8 17. On or about June 2004, DAO began offering and selling SRI stocks and/or notes to
9 offerees and/or investors.

10 18. The engagement of DAO was later memorialized in writing. On or about January
11 14, 2006, K. COTTLE, on behalf of SRI, executed a written contract memorializing the
12 engagement of DAO as a contractor and to secure investor monies. SRI agreed to compensate
13 DAO five percent (5%) to ten percent (10%) of investor monies obtained. The agreement also
14 stated that DAO was to report to the CEO.

15 19. At all times relevant, DAO resided in California. Investor monies collected by DAO
16 were mailed or forwarded to SRI, which maintained its principal place of business in Arizona for
17 all times relevant.

18 20. From on or about June 2004 through May 2007, DAO offered and/or sold Series B,
19 Series B1, Series B2, and SRI convertible promissory notes. DAO received compensation from
20 SRI for obtaining investor monies up to May 2007.

21 21. DAO is not and has not been a registered securities salesman in the state of Arizona
22 or any state.

23 22. During the relevant timeframe, SRI, COTTLE, DAO and/or W. KIKUCHI, offered
24 and/or sold³ securities titled as: SRI convertible promissory notes, Series B, Series B1, Series B2,
25

26 ³ Series A preferred stock was offered and/or sold outside the state of Arizona, approximately from on or about June 2001 to March 2002 to Non-Arizona investors and while SRI was headquartered in Oregon and/or Nevada.

1 SRI Series C preferred ("Series C") stocks, and/or SRI stock warrants ("Warrants"), which raised
2 total of at least **\$2,637,880.00** from over 100 investors.

3 a) Convertible promissory notes were offered and/or sold from approximately
4 May 2004 to 2007.

5 b) Series B were offered and/or sold from approximately April 2004 to
6 December 2006;

7 c) Series B1 were offered and/or sold from approximately March 2005 to
8 March 2006;

9 d) Series B2 were offered and/or sold from approximately May 2006 to
10 December 2007;

11 e) Series C were offered and/or sold from approximately November 2004 to
12 2007; and

13 f) Warrants were offered and/or sold from approximately May 2005 to
14 December 2007;

15 23. COTTLE represented to certain offerees and/or investors that SRI was seeking
16 investment capital to expand its business operations and to assist SRI in its effort to be bought out
17 or become a publicly traded company by initial public offering ("IPO") in approximately six (6) to
18 eighteen (18) months. Offerees and/or investors were told they would reap a good return once SRI
19 was acquired or performed an IPO.

20 **Convertible Promissory Notes**

21 24. From approximately May 2004 to 2007, COTTLE, personally and/or through DAO
22 and/or W. KIKUCHI, offered and/or sold unregistered securities in the form of notes and/or
23 investment contracts (titled as "Unsecured Convertible Promissory Note" hereafter called "Note"),
24 within or from Arizona. The Note stated SRI would pay periodic interest payments to the holder
25 (generally six percent (6%) or eight percent (8%) annual rate) with the option to convert the
26

1 principal and interest amount into SRI stock. The Notes were unsecured and generally had a stated
2 maturity of two years.

3 25. Provisions of the Note agreement required that SRI repay the Note-holder in
4 semiannual payments over a certain timeframe, unless a qualified financing or liquidating event
5 occurred within the listed period, usually two years from the date of contract execution or effective
6 date. A "qualified financing" is described in the Note as a "financing for the sale of [SRI] stock in
7 which the gross offering proceeds to [SRI] exceed an aggregate of at least Five Hundred Thousand
8 Dollars (\$500,000) (including any conversion of debt into equity in connection therewith)." A
9 "liquidating event" is described as "a merger or consolidation of the Company [...] with another
10 Company or (ii) a sale, transfer or other disposition of all or substantially all of the assets of the
11 Company or (iii) [...] a transaction or series of related transactions in which more than 50% of the
12 voting power of the Company is transferred within a three-month period." Neither a qualified
13 financing nor liquidating event occurred after the offers and sales of the Notes.

14 26. The Note-holders have not received any interest payments on their Notes. Most, if
15 not all the Notes, were converted to SRI stock.

16 27. Pursuant to a Note provision, SRI was required to follow a conversion procedure
17 that required SRI to notify the Note-holder in writing upon the occurrence of a qualified financing
18 or liquidating event; however, no Note-holder received a document in writing detailing the
19 occurrence of either a qualified financing or liquidating event.

20 28. Prior to making an interest payment on the Notes or maturity of the Notes, the
21 COTTLES offered and/or encouraged the Note-holders to convert their Notes into SRI stock.

22 29. COTTLE represented to investors that by converting the Note into SRI stock, the
23 investor would be able to obtain a greater return.

24 a) In at least one instance, COTTLE stated to an investor that SRI stock would
25 be sold at \$5.00 per share (or greater);
26

1 b) In at least one instance, COTTLE stated to an investor that the stock value
2 would be double or triple the investor's purchase price when the company was acquired, was sold
3 or went public.

4 30. To date, SRI has not been acquired by another company nor completed an IPO
5 offering.

6 31. The notes and/or investment contracts are not registered with the Commission.

7 32. At all times relevant, SRI was not a registered dealer and COTTLE was not a
8 registered salesman with the Commission.

9
10 **SERIES B**

11 33. COTTLE, personally and/or through DAO and/or W. KIKUCHI, offered and/or
12 sold, within or from Arizona, Series B stock from approximately April 2004 to December 2006.

13 34. COTTLE sent shareholder newsletters to offerees and/or investors soliciting them to
14 invest in Series B stocks and requested existing shareholders to pass along the investment
15 opportunity to their friends.

16 35. A third (3rd) quarter 2004 shareholder newsletter sent by Respondents stated that
17 SRI was raising a total of \$1,000,000.00 from the Series B shares, that \$750,000.00 had already
18 been raised, and that after the remaining \$250,000.00 was raised, the Series B shares would be
19 completely closed in anticipation of moving on to Series C shares.

20 36. However, COTTLE, personally and/or through DAO and/or W. KIKUCHI,
21 thereafter offered and/or sold shares of Series B, Series B1 and Series B2 stocks to investors prior
22 to Series C stock shares being sold.

23 37. The stock is not registered with the Commission.

24 38. At all times relevant, SRI was not a registered dealer and COTTLE was not a
25 registered salesman with the Commission.

1 **SERIES B1**

2 39. COTTLE, personally and/or through DAO and/or W. KIKUCHI, offered and/or
3 sold, within or from Arizona, Series B1 stocks from approximately March 2005 to March 2006.

4 40. In a "Business Profile" newsletter distributed to offerees and/or investors, it stated
5 that SRI had certain partnerships or joint ventures. Specifically, it stated:

6 a) That SRI had a joint partnership with Olympus Corporation to create
7 managed security product in the Japanese market;

8 b) That SRI was currently working a joint venture agreement with Ahnlab, a
9 Korean software company; and

10 c) That SRI had a business relationship with Fujitsu, a global software and
11 hardware manufacturer, and had "over a million computers installed [with the SRI software] and
12 with the Fujitsu deal alone will generate over 5 million new licenses each year."

13 41. However, SRI did not have a written or contractual joint partnership with Olympus
14 Corporation to create a managed security product and was not paid any substantive amount by
15 Olympus Corporation.

16 42. However, SRI did not have a joint venture agreement with Ahnlab nor made any
17 direct sales to Ahnlab of any substantive amount.

18 43. However, SRI did not have any direct contractual relationship with Fujitsu that
19 generated over five million new licenses each year and did not have over one million Fujitsu
20 computers installed with the SRI software.

21 44. On or around the third quarter of 2005, an SRI shareholder newsletter was
22 distributed to offerees and/or investors offering Series B1 shares for \$.50 per share. In addition, for
23 any individual who invested \$50,000 or more, SRI would issue matching warrants so the investor
24 may purchase additional shares in the later rounds at the same fixed \$.50 per share price no matter
25 what the value of the SRI stock is in later rounds. The newsletter stated that Houlihan Lokey
26 Howard and Zukin ("HLHZ") projected that "round C shares will be valued above a dollar per

1 share.” However, the investment banking firm HLHZ never provided SRI with any written or
2 formal valuation for SRI Series B, B1 or B2 stock nor did they advise SRI in writing that the SRI
3 round C shares would be valued above a dollar per share. The newsletter ends with a message
4 from the CEO/Chairman COTTLE.

5 45. SRI did not disclose to all investors the total amount of Warrants that had been
6 granted or issued. In addition, SRI failed to disclose to all investors that the SRI stock might
7 become diluted or depreciate in value as a result of Warrants issued.

8 46. In at least one instance, COTTLE told an investor that Series B1 shares would be
9 closed from further investment after December 2005; however, SRI Series B1 shares continued to
10 be sold after December 2005.

11 47. On or about March 2006, DAO solicited an offeree and/or investor to invest in SRI
12 Series B1 stock.

13 48. DAO represented to an offeree and/or investor that the offeree and/or investor could
14 expect to make a return of six (6x) times or greater on their original investment.

15 49. On or about March 16, 2006, DAO, on behalf of COTTLE, contacted an offeree
16 and/or investor and offered securities in the form of stocks and warrants, within or from Arizona,
17 by sending an electronic mail message from an SRI email account to the offeree and/or investor
18 that stated:

19 a) “Secure Resolutions, is entering its 6th year of business and the best bet for a
20 large return on investment (ROI) within this B1 round you may find the following information
21 useful.”

22 b) “* Minimum investment is \$10k”;

23 c) “* At \$50k or greater you receive matching warrants”;

24 d) “* Equity shares are 50 cents a share”;

25 e) “* Round B-1 Funding was closed as of December 31, 2005. However, the
26 company has extended this opportunity for a little longer” ;

1 f) That B-1 shares “will close out at the end [of the] month. After this, there
2 will be no more family and friends funding” ;

3 g) That SRI currently had 15 companies bidding on it through their investment
4 banking firm;

5 h) That SRI probably will be purchased for \$100 million plus;

6 i) That it would be a “cash buyout!”; and

7 j) That some of the “BIG companies that want to acquire Secure Resolutions
8 are the following:

9 (i) IBM software division

10 (ii) Oracle

11 (iii) Microsoft

12 [...]

13 (iv) The rest of the companies that are \$100M to \$500M size.” (*error in original*)

14

15 50. However, IBM software division, Oracle and Microsoft did not submit a cash
16 buyout and/or acquisition offer to SRI or to HLHZ, a San Francisco investment banking firm hired
17 by SRI.

18 51. On or about March 17, 2006, COTTLE sent an electronic mail message to an
19 offeree and/or investor that stated that the investment banking firm hired by SRI told SRI they “are
20 undervaluing the stock, we need to be right now around \$1.25 or higher per share. – Based on
21 volume of sales per client and the same but better technology they are screaming at us to raise the
22 value over 50 cents....”

23 52. However, HLHZ, the investment banking firm hired by SRI, did not provide SRI
24 with any written memo or document stating that SRI Series B1 stock needed to be around \$1.25 or
25 higher per share nor did they recommend to SRI in any written memo or document advising SRI to
26 raise the value to over fifty (\$.50) cents per share.

53. In addition, SRI Series B1 shares were sold below fifty cents (\$.50) per share to later investors. SRI did not disclose to all earlier investors that had purchased at fifty cents (\$.50) per share that subsequent Series B1 shares would be sold by SRI for thirty-eight cents (\$.38) and/or thirty-one cents (\$.31) per share and did not disclose to all earlier investors that such discounted sales did occur.

54. The stocks and warrants are not registered with the Commission.

55. At all times relevant, SRI was not a registered dealer and COTTLE was not a registered salesman with the Commission.

SERIES B2

56. COTTLE, personally and/or through DAO and/or W. KIKUCHI, offered and/or sold, within or from Arizona, Series B2 stock from approximately May 2006 to December 2007.

57. On or about May 2006, offerees and/or investors were sent an SRI newsletter that provided financial projections and offered for sale Series B2 stock. The newsletter stated:

“Financial Projections:

SRI in 2005 generated 1.2 Million dollars in revenue. In 2006 SRI has projected 6 Million dollars in revenue and is on target for this goal. In 2007, SRI is projecting over 15 Million dollars in revenue 2008 and 25 Million in 2009.” (*errors in original*)

58. However, SRI did not generate \$1.2 Million dollars in actual revenue in 2005. SRI generated \$796,949.00 based on its 2005 federal income tax return.

59. In 2006, as SRI was offering Series B2 stock at \$1.00 per share, another SRI newsletter was sent to certain offerees and/or investors that provided a second set of financial projections. The newsletter stated:

“Financial Projections:

1 In 2005, SRI generated collected revenue streams of 800 thousand dollars and raised
2 another 500 thousand dollars equaling \$1.2 Million dollars in revenue and Capital
3 Investment. In 2006 SRI has projected 3 Million dollars in revenue and is on target
4 for this goal. We also expect to raise \$2 Million in Capital Investment in 2006
5 equaling over 5 Million dollars in revenue and capital investment. In 2007, SRI is
6 projecting over 8 Million dollars in revenue and in 2008 to reach 20 Million dollars
7 in revenue alone.

8
9 SRI projects the valuation of the company estimate at \$30+ Million dollars in 2006.
10 Our goal is to raise the valuation of the Company to be \$100+ Million dollars within
11 the next three years.” (*Errors in original*)

12 60. The SRI newsletter also stated that SRI believed a merger or acquisition would
13 happen within the next two years.

14 61. However, SRI did not generate \$1,200,000.00 or \$800,000.00 in actual revenue in
15 2005. In 2005, SRI’s actual revenue was at least \$200,000.00 less than the \$796,949.00 reported on
16 its federal income tax return. On or about March 2005, COTTLE solicited an investor to invest
17 \$200,000.00 in exchange for SRI stock. A contingent SRI stock purchase agreement was executed
18 whereby the investor would invest the proceeds of a real estate transaction if the real estate was
19 sold. The investor’s real estate property was not sold, yet SRI recorded the transaction as income
20 for March 2005. This \$200,000.00 receivable remained on SRI’s books for calendar year 2005 to at
21 least 2008 and directly increased SRI’s revenue number reported, though it was not collected or
22 due.

23 62. The stock is not registered with the Commission.

24 63. At all times relevant, SRI was not a registered dealer and COTTLE was not a
25 registered salesman with the Commission.

1 **SERIES C**

2 64. COTTLE, individually and on behalf of SRI, offered and/or sold, within or from
3 Arizona, Series C stock and notes from approximately November 2004 to 2007.

4 65. On or around November 20, 2004, COTTLE solicited offerees and/or investors to
5 attend a presentation regarding SRI's investment opportunity. The document is attached as
6 **EXHIBIT A.**

7 66. This presentation took place on November 20, 2004 at the La Veranda Restaurant
8 located in Garden Grove, CA and COTTLE was a presenter. COTTLE disclosed that various
9 business relationships had been secured by SRI that would increase sales, that certain larger
10 corporations were interested in acquiring SRI, and that SRI stock would appreciate greatly if SRI
11 went public.

12 67. As detailed in the "Investment Opportunity" section of the **EXHIBIT A** document,
13 SRI was seeking \$10,000,000.00. "The minimum investment is \$100,000 and will be secured by a
14 convertible note paying 6.0% upon maturation after one year from date of issuance." SRI offered
15 the offerees and/or investors the option at maturity of the note, to be paid the principal and interest
16 due or convert the principal and interest into Series C stock.

17 68. Approximately fifteen (15) people attended the presentation.

18 69. Offerees and/or investors were also sent a third (3rd) quarter 2005 shareholder
19 newsletter that stated, "According to our investment banking firm HLHZ, it is projected that round
20 C shares will be valued above a dollar per share."

21 70. However, the investment banking firm HLHZ never provided SRI with any written
22 or formal SRI Series C stock valuation nor did they advise SRI in writing that the Series C shares
23 would be valued above a dollar per share.

24 71. In fact, COTTLE sold \$5,000.00 of Series C stock to an investor at fifty cents (\$.50)
25 per share in exchange for the investor to waive a \$5,000.00 presentation fee that allowed COTTLE
26 to present an investment opportunity to angel investors.

1 72. The stocks and notes are not registered with the Commission.

2 73. At all times relevant, SRI was not a registered dealer and COTTLE was not a
3 registered salesman with the Commission.

4 **WARRANTS**

5 74. COTTLE, individually and on behalf of SRI, offered and/or sold, within or from
6 Arizona, SRI Warrants from approximately May 2005 to December 2007.

7 75. As described above, COTTLE, individually and on behalf of SRI, offered Warrants
8 in an SRI newsletter or as an incentive to invest. The Warrants granted the individual holder the
9 right to purchase additional SRI stock shares at a fixed price. At least two investors exercised their
10 Warrants and purchased Series B1 and Series B2 shares respectively.

11 76. Many SRI investors were granted Warrants with non-expiring execution rights.
12 COTTLE solicited and requested Warrant holders to execute their warrants and purchase additional
13 shares of SRI stock.

14 77. COTTLE did not disclose to all investors the total amount of Warrants that had been
15 granted or issued. In addition, COTTLE failed to disclose to all investors that the SRI stock might
16 become diluted or diminished in value as a result of Warrants issued.

17 78. The Warrants are not registered with the Commission.

18 79. At all times relevant, SRI was not a registered dealer and COTTLE was not a
19 registered salesman with the Commission.

20 **JOINT FACTS**

21 80. COTTLE presented to offerees and/or investors that SRI was a growing and
22 profitable company. An SRI newsletter stated that SRI was "one of Arizona's top rated businesses.
23 Our security business will generate local jobs for many employees over a long duration of time.
24 We are one of Arizona's fastest growing small businesses." However, SRI's 2004, 2005, and 2006
25 federal income tax returns reflect losses of \$(502,945.00), \$(338,869.00), and \$(297,492.00),
26 respectively.

1 81. In addition, Respondents failed to disclose that the company had not paid all payroll
2 and unemployment taxes due to the federal government since March 31, 2004. Pursuant to the
3 public records of the Maricopa County Recorder, federal tax liens were recorded against SRI for
4 failure to pay unemployment taxes and payroll taxes totaling \$1,405,615.23⁴ for tax periods
5 covering March 31, 2004, through December 31, 2008.

6 82. On or about October 9, 2001, SRI obtained a United States Department of
7 Agriculture ("USDA") rural development business loan⁵. The proceeds of the USDA loan were
8 expended by approximately October 2003; however, SRI did not disclose: (i) the existence of the
9 loan to all Note-holders and investors (ii) the amount of the loan and/or (iii) that on or about May
10 2006, SRI had unpaid principal of \$3,064,435.71; unpaid interest of \$497,147.48; and an amount
11 behind schedule of \$1,938,587.38. The USDA loan is still outstanding.

12 83. In addition, pursuant to public records of the Secretary of State of Arizona, the
13 USDA filed a UCC financing statement on October 19, 2006, that provides collateral for the loan
14 and covers "All accounts, deposits accounts, goods, supplies, inventory, supporting obligations,
15 investment property, certificates of title, payment intangibles, and general intangibles, including,
16 but not limited to the following: Furniture; Fixtures; Equipment; Computer Equipment; Notes
17 Receivable [...]; Accounts Receivable; [and] Inventory." The underlying security agreement and
18 financing statement were not disclosed to all Note-holders and investors.

19 84. On or about June 20, 2008, offerees and/or investors were sent an SRI newsletter
20 that included "a message from the chairman [Douglas Cottle]" that stated, "The Company
21 continues to create new partnerships to lay a strong foundation for sales growth and company
22 value. [...] I want to share with you that the Company is progressing and the sale of our product
23

24 ⁴ Federal tax lien recorder # 2008-102850 for \$1,063,960.79 and recorder # 2008-102851 for \$173,635.79 filed on
25 December 1, 2008. Federal tax lien recorder # 2009-0188641 for \$131,091.71 filed on February 20, 2009. Federal tax
lien recorder # 2009-0324119 for \$36,926.94 filed on April 3, 2009.

26 ⁵ Pursuant to the public records of the Oregon Secretary of State, a UCC filing #567745 was filed on October 12, 2001
by the USDA-Rural Development 1390 S Curry Street, Carson City, NV 89703 as Secured Party and SRI as the
Debtor. The expiration date for this filing was October 12, 2006.

1 line will greatly enhance our ability to add to the strength of the other developmental products. We
2 want to bring as much value as possible to the company, and your Investment.”

3 85. On or about September 1, 2008, SRI sent a 2007 profit and loss statement to
4 investors that reported sales income of approximately \$2,257,809.78 and a net income of
5 approximately \$488,368.76; however, investors were not told that the accounts receivable included
6 a \$799,000.00 receivable that had been on the company's book since March 2, 2007 and was not
7 actually due to SRI; and a \$200,000.00 receivable that had been on the company's book since May
8 1, 2005 and was not actually due to SRI. These accounting entries directly increased SRI's
9 revenue and net income numbers disclosed, even though the \$999,000.00 was not collected or due.

10 **IV.**

11 **VIOLATION OF A.R.S. § 44-1841**

12 **(Offer or Sale of Unregistered Securities)**

13 86. Respondents offered or sold securities in the form of notes, investment contracts,
14 stocks and/or warrants, within or from Arizona. Specifically:

15 a) From approximately May 2004 to 2007, unregistered securities in the form
16 of notes and/or investment contracts, titled by SRI as Unsecured Convertible Promissory Notes;

17 b) From approximately April 2004 to December 2006, unregistered securities
18 in the form of stocks, titled by SRI as Series B stock;

19 c) From approximately March 2005 to March 2006, unregistered securities in
20 the form of stocks and warrants, titled by SRI as Series B1 stock and SRI warrants;

21 d) From approximately May 2006 to December 2007, unregistered securities in
22 the form of stocks, titled by SRI as Series B2 stock;

23 e) From approximately November 2004 to 2007, unregistered securities in the
24 form of stocks and notes, titled by SRI as Series C stock; and

25 f) From approximately May 2005 to December 2007, unregistered securities in
26 the form of warrants, titled by SRI as stock warrants or options.

87. The securities referred to above were not registered pursuant to Articles 6 or 7 of the Securities Act.

88. This conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

89. Respondents offered or sold securities within or from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

90. This conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer or Sale of Securities)

91. In connection with the offer or sale of securities within or from Arizona, Respondents directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts that were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; or (iii) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon offerees and investors. The conduct includes, but is not limited to, the following:

a) Represented to offerees and/or investors in an SRI newsletter that SRI was a growing and profitable company. The newsletter stated that SRI was “one of Arizona’s top rated businesses. Our security business will generate local jobs for many employees over a long duration of time. We are one of Arizona’s fastest growing small businesses.” However, SRI’s 2004, 2005, and 2006 federal income tax returns reflect losses of \$(502,945.00), \$(338,869.00), and \$(297,492.00), respectively;

1 b) COTTLE sent an electronic mail message to an offeree and/or investor that
2 stated that the investment banking firm hired by SRI told SRI they “are undervaluing the stock, we
3 need to be right now around \$1.25 or higher per share. – Based on volume of sales per client and
4 the same but better technology they are screaming at us to raise the value over 50 cents....”
5 However, HLHZ, the investment banking firm hired by SRI, did not provide SRI with any written
6 memo or document stating that SRI Series B1 stock needed to be around \$1.25 or higher per share
7 nor did they recommend to SRI in any written memo or document advising SRI to raise the value
8 to over fifty (\$.50) cents per share;

9 c) Represented that IBM software division, Oracle and Microsoft had
10 submitted a cash buyout and/or acquisition offer for SRI; however, IBM software division, Oracle
11 and Microsoft did not submit a cash buyout and/or acquisition offer to SRI or to HLHZ, a San
12 Francisco Investment banking firm hired by SRI;

13 d) Represented that SRI had a joint partnership with Olympus Corporation to
14 create a managed security product in the Japanese market; however, SRI did not have a written or
15 contractual joint partnership with Olympus Corporation to create a managed security product and
16 was not paid any substantive amount by Olympus Corporation;

17 e) Represented that SRI was currently working a joint venture agreement with
18 Ahnlab, a Korean software company; however, SRI did not have a joint venture agreement with
19 Ahnlab nor made any direct sales to Ahnlab of any substantive amount;

20 f) Represented that SRI had a business relationship with Fujitsu, a global
21 software and hardware manufacturer, and had “over a million computers installed [with the SRI
22 software] and with the Fujitsu deal alone will generate over 5 million new licenses each year.”;
23 however, SRI did not have any direct contractual relationship with Fujitsu that generated over five
24 million new licenses each year and did not have over one million Fujitsu computers installed with
25 the SRI software;

1 g) Represented that SRI collected revenues of \$1,200,000.00 and/or
2 \$800,000.00 in 2005; however, SRI did not generate \$1,200,000.00 or \$800,000.00 in actual
3 revenue in 2005. In 2005, SRI's actual revenue was at least \$200,000.00 less than the \$796,949.00
4 reported on its federal income tax return. On or about March 2005, COTTLE solicited an investor
5 to invest \$200,000.00 in exchange for SRI stock. A contingent SRI stock purchase agreement was
6 executed whereby the investor would invest the proceeds of a real estate transaction if the real
7 estate was sold. The investor's real estate property was not sold, yet SRI recorded the transaction as
8 income for March 2005. This \$200,000.00 receivable remained on SRI's books for calendar year
9 2005 to at least 2008 and directly increased SRI's revenue number reported, though it was not
10 collected or due;

11 h) Failed to disclose that the company had not paid all payroll and
12 unemployment taxes due to the federal government since March 31, 2004. Pursuant to the public
13 records of the Maricopa County Recorder, federal tax liens were recorded against SRI for failure to
14 pay unemployment taxes and payroll taxes totaling \$1,405,615.23⁶ for tax periods covering March
15 31, 2004 through December 31, 2008;

16 i) Failed to disclose to all earlier investors that had purchased Series B1 at fifty
17 cents (\$.50) per share that subsequent Series B1 shares would be sold for thirty-eight cents (\$.38)
18 and/or thirty-one cents (\$.31) per share and did not disclose to all earlier investors that such
19 discounted sales did occur;

20 j) Failed disclose: (i) the existence of the USDA loan to all Note-holders and
21 investors (ii) the amount of the loan and/or (iii) that on or about May 2006, SRI had unpaid principal
22 of \$3,064,435.71; unpaid interest of \$497,147.48; and an amount behind schedule of \$1,938,587.38;

23
24
25 ⁶ Federal tax lien recorder # 2008-102850 for \$1,063,960.79 and recorder # 2008-102851 for \$173,635.79 filed on
26 December 1, 2008. Federal tax lien recorder # 2009-0188641 for \$131,091.71 filed on February 20, 2009. Federal tax
lien recorder # 2009-0324119 for \$36,926.94 filed on April 3, 2009.

1 k) Failed to disclose to all investors the total amount of Warrants that had been
2 granted or issued. In addition, COTTLE failed to disclose to all investors that the SRI stock might
3 become diluted or depreciate in value as a result of Warrants issued; and

4 l) Represented in a third (3rd) quarter 2005 shareholder newsletter that,
5 "According to our investment banking firm HLHZ, it is projected that round C shares will be
6 valued above a dollar per share."; however, the investment banking firm HLHZ never provided
7 SRI with any written or formal SRI Series C stock valuation nor did they advise SRI in writing that
8 the Series C shares would be valued above a dollar per share.

9 92. COTTLE and K. COTTLE are persons controlling SRI within the meaning of
10 A.R.S. § 44-1999. Therefore, COTTLE and K. COTTLE are each jointly and severally liable to the
11 same extent as SRI for violations of A.R.S. § 44-1991.

12 93. This conduct violates A.R.S. § 44-1991.

13 VII.

14 REQUESTED RELIEF

15 The Division requests that the Commission grant the following relief:

16 1. Order Respondents to permanently cease and desist from violating the Securities
17 Act, pursuant to A.R.S. § 44-2032;

18 2. Order Respondents to take affirmative action to correct the conditions resulting from
19 Respondents' acts, practices, or transactions, including a requirement to make restitution pursuant to
20 A.R.S. § 44-2032 and A.A.C. § R14-4-308;

21 3. Order Respondents to pay the state of Arizona administrative penalties of up to five
22 thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;

23 4. Order that the marital community of COTTLE and K. COTTLE be subject to any
24 order of restitution, rescission, administrative penalties, or other appropriate affirmative action
25 pursuant to A.R.S. § 25-215; and

26 5. Order any other relief that the Commission deems appropriate.

1 **VIII.**

2 **HEARING OPPORTUNITY**

3 Each respondent may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-
4 **306. If a Respondent requests a hearing, the requesting respondent must also answer this**
5 **Notice.** A request for hearing must be in writing and received by the Commission within 10
6 business days after service of this Notice of Opportunity for Hearing. The requesting respondent
7 must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W.
8 Washington, Phoenix, Arizona 85007. Filing instructions may be obtained from Docket Control by
9 calling (602) 542-3477 or on the Commission's Internet web site at
10 <http://www.azcc.gov/divisions/hearings/docket.asp>.

11 If a request for a hearing is timely made, the Commission shall schedule the hearing to begin
12 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the
13 parties, or ordered by the Commission. If a request for a hearing is not timely made the Commission
14 may, without a hearing, enter an order granting the relief requested by the Division in this Notice of
15 Opportunity for Hearing.

16 Persons with a disability may request a reasonable accommodation such as a sign language
17 interpreter, as well as request this document in an alternative format, by contacting Shaylin A.
18 Bernal, ADA Coordinator, voice phone number 602/542-3931, e-mail sabernal@azcc.gov.
19 Requests should be made as early as possible to allow time to arrange the accommodation.

20 **IX.**

21 **ANSWER REQUIREMENT**

22 Pursuant to A.A.C. R14-4-305, if a Respondent requests a hearing, the requesting
23 respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket
24 Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within
25 30 calendar days after the date of service of this Notice. Filing instructions may be obtained from
26

1 Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at
2 <http://www.azcc.gov/divisions/hearings/docket.asp>.

3 Additionally, the answering respondent must serve the Answer upon the Division.
4 Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-
5 delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix,
6 Arizona, 85007, addressed to Phong (Paul) Huynh.

7 The Answer shall contain an admission or denial of each allegation in this Notice and the
8 original signature of the answering respondent or respondent's attorney. A statement of a lack of
9 sufficient knowledge or information shall be considered a denial of an allegation. An allegation
10 not denied shall be considered admitted.

11 When the answering respondent intends in good faith to deny only a part or a qualification
12 of an allegation, the respondent shall specify that part or qualification of the allegation and shall
13 admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

14 The officer presiding over the hearing may grant relief from the requirement to file an
15 Answer for good cause shown.

16 Dated this 21st day of May, 2009.

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19 Mark Dinell
20 Assistant Director of Securities

21 (PTH/GP)
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EXHIBIT A

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Secure Resolutions, Inc.

Investment Opportunity Overview

<http://www.secureresolutions.com>

Executive Summary

Secure Resolutions, Inc. is seeking funding of \$10,000,000 to support increased cash flow requirements resulting from dramatic increases in sales.



Investment Opportunity

The funding being sought in this private offering is \$10,000,000. The minimum investment is \$100,000 and will be secured by a convertible note paying 6.0% upon maturation after one year from date of issuance.

Upon the convertible note reaching maturity, or the Company closing of the round an investor may either receive their initial investment within, company's Series C Preferred Stock or convert the note and be paid back their loan + interest.

Funds received from this offering will be used for staffing, marketing and infrastructure necessary to meet company growth.

Detailed information regarding this investment opportunity will be provided and discussed at the presentation.

Meeting Date, Time, Location

Date & Time	November 20 th , 2004 11:00am-2:00pm -- Please arrive 15 to 20 minutes early
Location	La Veranda Restaurant 10131 Westminster Ave Suite 114 Garden Grove, Ca 92843 (714) 539-3368
RSVP	

Technology Overview

Secure Resolutions, Inc. is a cutting-edge software development company specializing in intrusion-prevention, detection and management. The company's premier product, **Resolution Antivirus™**, is a unique computer virus detection and prevention application that provides "best of class" computer virus protection and security management unlike any other product available in the market.

Secure Resolutions' **Resolution Antivirus™** solution is a web based secured ASP technology that provides every company with an effective desktop and fileserver solution, ready for dynamic and automatic deployment. In an improvement on distributed server (P2P) technology, computing networks dynamically work together, using intelligent agents and component framework services residing seamlessly on the client. This enables companies to use minimum bandwidth and bypass the need for multiple computers relying on Internet connections. Once installed, this technology requires absolutely no supervision from the end-user; even maintenance, application status monitoring, and updating are performed automatically! To simply be competitive within this security field while still offering our customers the best, Secure Resolutions had to reach out and change the next generation of products to be a more effective, lower costing antivirus solution.

History

Development of **Resolution Antivirus™** began in 2001 by a team of developers with over 75 years of experience in the development of enterprise security software solutions and having an intimate knowledge of competitor products.

Since release of **Resolution Antivirus™** in 4Q'03 Secure Resolutions has achieved agreements with a fast growing number of vendors and end-users as represented in the following list:

Distributors\Resellers	End-users
<p>Costco/Costco Business Centers – Worldwide wholesaler http://www.costco.com/Browse/BDHome.aspx?browse=1&whse=BD_827&topnav=bdoff</p> <p>Panda Software (www.pandasoftware.com) – third largest developer of antivirus 'engines' and related products with distribution in 50 countries worldwide http://enterprises.pandasoftware.com/products/webadmin/</p> <p>C-Media Interactive Labs (www.cmisecure.com) – distributor/user/systems provider in the United Kingdom and Ireland – 40,000 converted with 100,000 planned by Year end 2004</p> <p>Mitra IT (www.mitraresecure.com) – US distributor/user with over 200 customers including Boeing Airlines</p> <p>Paladin Technology –supplier to government, Best Buy and CompUSA</p> <p>Ingram Micro– Worldwide distributor of business and consumer electronics and information technology solutions</p> <p>Amazon.com http://www.amazon.com/exec/obidos/search-handle-form/102-3792238-9239366</p>	<p>Over 75,000 sold via Secure Resolutions channel partners</p> <p>Panda & Secure Resolutions landed an OEM deal with NEC computers in Japan worth 25,000 new licenses per quarter for the next 5 years. – That is 500,000 license with re-occurring revenue for 5 years</p> <p>CMI & Secure Resolutions – Recently landed a UK Government contract worth 720,000 licenses</p> <p>A couple key customers know in the LA area are Brooks College, ParaSoft, Sigue</p> <p>Other national known accounts are ADT, State Farm, Farmers, Beneficial Life, Government and Educational</p>